

Message Text

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 8281

UNCLAS SECTION 1 OF 2 NEW DELHI 5446

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SUBJECT: TRADE AND INVESTMENT OUTLOOK ARTICLE

REF: CERP 0006

1. THERE FOLLOWS THE ANNUAL TRADE AND INVESTMENT OUTLOOK
ARTICLE DRAFTED BY COMMERCIAL ATTACHE ANTHONY WALLACE:

2. A CONTINUED HIGH LEVEL OF INDIAN IMPORTS IS FORESEEN
FOR 1975-76 IN SPITE OF THE LARGE DOLS1.3 BILLION TRADE
DEFICIT INCURRED DURING THE PREVIOUS YEAR. THE RECENTLY
ANNOUNCED NEW IMPORT POLICY STRESSES EXPORT PROMOTION
AS A MEANS OF REDRESSING THE DEFICIT, RATHER THAN IMPORT
SUBSTITUTION. THIS CONFIDENCE ON THE PART OF THE INDIAN
GOVERNMENT IS BASED ON PROJECTIONS OF INCREASING EXPORTS
AND EXPECTATIONS OF SUBSTANTIAL BALANCE-OF-PAYMENTS CREDITS
FROM OPEC COUNTRIES AND THE IMF OIL FACILITY.

3. TOTAL INDIAN IMPORTS ARE EXPECTED TO BE BETWEEN
DOLS5 AND DOLS 6 BILLION DURING THE NEXT YEAR WITH FOOD,
PETROLEUM AND FERTILIZER IMPORTS CONTINUING TO
CONSTITUTE THE BULK OF THIS AMOUNT. OTHER IMPORTS ARE
BUDGETED AT APPROXIMATELY DOLS1.7 BILLION FOR 1975-76 OR
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SOMEWHAT HIGHER THAN LAST YEAR. RAW MATERIALS AND

COMPONENTS FOR INDUSTRIES PRODUCING NON-LUXURY GOODS
WILL BE PROVIDED A SLIGHTLY LARGER FOREIGN EXCHANGE
ALLOCATION THAN LAST YEAR.

4. THE RAGING INFLATION WHICH SAW THE WHOLESALE PRICE
INDEX CLIMB AT AN ANNUAL RATE OF 30 PERCENT DURING MUCH
OF LAST YEAR HAS BEEN SHARPLY REDUCED AND MAY NOT EXCEED
10 PERCENT. BUT THE GOVERNMENTS' CREDIT SEQUEESE ALSO
CURTAILED PLANS FOR NEW INVESTMENT IN KEY INDUSTRIES, SUCH
AS TEXTILES. WITH A MORE LIBERAL CREDIT POLICY, INDUSTRIAL
GROWTH IS EXPECTED TO ACCELERATE IN THE COMING YEAR, AIDED
BY INCREASED AVAILABILITIES OF ELECTRIC POWER, COAL, CEMENT
AND STEEL. FOR PRODUCTION GAINS TO BE SUBSTANTIAL OTHER
BOTTLENECK AREAS SUCH AS TRANSPORT AND THE LABOR RELATIONS
CLIMATE WILL HAVE TO IMPROVE.

5. OF CRUCIAL IMPORTANCE TO THE HEALTH OF THE INDIAN
ECONOMY IS THE LEVEL OF AGRICULTURAL PRODUCTION. WITH A
GOOD MONSOON IN JUNE AND JULY AND GOOD CROPS, MORE FOREIGN
EXCHANGE MAY BE DIRECTED TO NON-AGRICULTURAL IMPORTS.

6. US EXPORTS UP. CALENDAR YEAR 1974 US EXPORTS TO
INDIA REACHED DOLS722 MILLION, AN INCREASE OF 28 PERCENT OVER
THE PREVIOUS YEAR. SALES OF FOODGRAINS AND FERTILIZER
MADE UP MORE THAN HALF OF THIS FIGURE. AS IN THE PREVIOUS
YEAR, ALMOST ALL OF US EXPORTS WERE MADE ON A COMMERCIAL
BASIS. INDIAN EXPORTS TO THE US INCREASED BY 25 PERCENT TO
DOLS570 MILLION AND THE US REMAINED INDIA'S BEST CUSTOMER.
THE US SHARE IN INDIA'S IMPORT MARKET WAS 18 PERCENT IN 1973
AND ABOUT THE SAME IN 1974.

7. THE MORE PROMISING PRODUCT CATEGORIES FOR US EXPORTS
TO INDIA INCLUDE RAILROAD EQUIPMENT, MINING, MINE PLANT
PROCESSING, AND EARTHMOVING MACHINERY; PETROLEUM EXPLORATION
EQUIPMENT; TELECOMMUNICATIONS; ELECTRONIC COMPONENTS; PROCESS
CONTROL INSTRUMENTATION; CHEMICALS; FERTILIZERS AND
PESTICIDES. THERE APPEARS TO BE A SIZEABLE UNSATISFIED
DEMAND FOR TEXTILE MACHINERY AND LARGE SIZE POWER GENERATION
EQUIPMENT, BUT DURING THE PAST YEAR, FOREIGN EXCHANGE HAS
NOT BEEN ALLOCATED FOR THESE ITEMS.

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8. DURING 1974 A DEPARTMENT OF COMMERCE-SPONSORED TRADE
MISSION (MINING AND EARTHMOVING EQUIPMENT) VISITED INDIA
AND IDENTIFIED GOOD NEAR-TERM SALES PROSPECTS. ADDITIONAL
MISSIONS AND CATALOG SHOWS IN OTHER FIELDS ARE PLANNED FOR
THIS YEAR, BASED ON MARKET RESEARCH BEING CONDUCTED BY THE
EMBASSY AND CONSULAR POSTS IN INDIA.

9. A RECENTLY COMPLETED ANALYSIS OF INDO-US TRADE OVER FIVE YEARS (1969-73) INDICATES THAT MANY US PRODUCTS ARE NO LONGER COMMERCIALY COMPETITIVE BECAUSE OF THE ABSENCE OF AID COMMODITY LOAN PROGRAMS WHICH FINANCED THEIR IMPORT BEFORE 1971. SALES DECREASES WERE NOTABLE IN IRON AND STEEL PRODUCTS, CRUDE INEDIBLE MATERIALS, NON-FERROUS METALS, AGRICULTURAL, TEXTILE, AND METALWORKING MACHINERY, AND MISCELLANEOUS MANUFACTURED ARTICLES. INDIA HAS, TO SOME EXTENT, SWITCHED TO SUPPLIERS OF THESE PRODUCTS WHO ARE ABLE TO OFFER LONG-TERM (MORE THAN 20 YEARS) FINANCING AT CONCESSIONAL INTEREST RATES.

10. BECAUSE OF EQUALITY AND PRICE COMPETITIVENESS, HOWEVER, US PRODUCTS CONTINUE TO BE FAVORED BY INDIAN END USERS. EXPORT-IMPORT BANK FINANCING IS AVAILABLE TO FACILITATE SALES. THIS YEAR, GIVEN THE LARGER AMOUNT OF FREE FOREIGN EXCHANGE WHICH WILL BE AVAILABLE FOR IMPORTS, SALES PROSPECTS OF SOME OF THE US ITEMS WHICH HAD FORMERLY LOST GROUND SHOULD IMPROVE.

11. GOVERNMENT STATE TRADING AGENCIES SUCH AS THE STATE TRADING CORPORATION (STC) AND THE MINERALS AND METALS

TRADING CORPORATION (MMTC) CONTINUE TO INCREASE THEIR PARTICIPATION IN BOTH IMPORT AND EXPORT TRADE. FOR ALL DEALINGS IN INDIA, WHETHER WITH GOVERNMENT AGENCIES OR PRIVATE BUYERS, MOST FIRMS WHO HAVE HAD EXPERIENCE HERE AGREE ON THE NEED FOR A COMPETENT LOCAL AGENT. THE AGENT WILL PROVE USEFUL IN REPORTING AND NEGOTIATING ON TRADE OPPORTUNITIES AND AIN FOLLOWING UP WITH IMPORT LICENSING AUTHORITIES. MORE THAN 2000 US FIRMS MAINTAIN AGENCY REPRESENTATION IN INDIA.SAXBE

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ACTION COME-00

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TO SECSTATE WASHDC 8282

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12. FOREIGN INVESTMENT WELCOMED IN SELECTED AREAS. ALTHOUGH THE ECONOMIC SITUATION AND TIGHT CREDIT CONDITIONS HAVE LED TO POSTPONEMENT OF SOME PROJECTS, THERE IS NO SHORTAGE OF PROPOSALS FOR JOINT VENTURES WITH FOREIGN FIRMS, INVOLVING BOTH PRIVATE AND PUBLIC SECTOR INDIAN PARTNERS. THE NUMBER OF US COLLABORATIONS, PARTICULARLY LICENSING ARRANGEMENTS, HAS RISEN STEADILY DURING THE PAST TWO YEARS. THERE ARE CURRENTLY ABOUT 400 SUCH COLLABORATIONS IN INDIA, ABOUT 120 OF WHICH INVOLVE US EQUITY PARTICIPATION. THE US SHARE OF TOTAL FOREIGN INVESTMENT IN INDIA IS ABOUT 27 PERCENT, SECOND ONLY TO THE UK SHARE OF 40 PERCENT.

13. THERE HAVE BEEN NO SIGNIFICANT REVISIONS OF THE INVESTMENT POLICY GUIDELINES SET FORTH BY THE GOVERNMENT IN EARLY 1974. FOREIGN EQUITY PARTICIPATION IN MOST VENTURES (EXCEPT THOSE IN THE "CORE" OR PRIORITY SECTOR OR THOSE WHICH EXPORT MORE THAN 60 PERCENT OF PRODUCTION) IS LIMITED TO 40 PERCENT. THE GOVERNMENT IS PARTICULARLY INTERESTED IN ATTRACTING INDUSTRIES TO INDIA WHICH WILL EXPORT 100 PERCENT OF PRODUCTION, USING LOCAL MATERIALS TO THE MAXIMUM EXTENT POSSIBLE. REAL PROGRESS HAS BEEN MADE IN CLEARING THE BACKLOG OF INVESTMENT APPLICATIONS. A FOREIGN INVESTOR CAN NOW EXPECT TO KNOW WITHIN THREE TO FOUR MONTHS WHETHER HIS PROPOSAL IS ACCEPTABLE. LICENSES UNCLASSIFIED

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ARE BEING ISSUED WITHIN SIX MONTHS TO ONE YEAR FROM DATE OF APPLICATION, COMPARED TO TWO TO THREE YEARS IN THE PAST. THE GOVERNMENT CONTINUES TO JUDGE FOREIGN INVESTMENTS ON (1) THEIR CAPACITY TO EARN FOREIGN EXCHANGE THROUGH EXPORTS; (2) THE ABILITY TO SAVE FOREIGN EXCHANGE BY INVESTMENT IN AREAS WHICH WILL REDUCE INDIA'S IMPORTS; AND (3) THE EXTENT TO WHICH NEEDED TECHNOLOGY IS TRANSFERRED TO INDIA.

14. ALTHOUGH SOME US FIRMS HAVE EXPERIENCED ADMINISTRATIVE DELAYS IN APPROVAL OF DIVIDENT REMITTANCES, THE POLICY OF THE GOVERNMENT IS STILL TO AVOID RESTRICTIONS ON REPATRIATION OF EARNINGS. SOME FIRMS HAVE EXPERIENCED DIFFICULTIES IN EXPANDING OR DIVERSIFYING THEIR OPERATIONS INDIA, ESPECIALLY WHEN THE LOCAL PARTNER IS ONE OF THE LARGE INDUSTRIAL HOUSES. THERE IS ALSO SOME STIFFENING OF THE TERMS UNDER WHICH LICENSING AGREEMENTS CAN BE RENEWED AND

THERE IS SOME DOWNWARD PRESSURE ON THE MAXIMUM PERMISSIBLE LEVEL OF ROYALTIES AND TECHNICAL FEES. THERE ARE NO INDICATIONS THAT THE GOVERNMENT INTENDS TO NATIONALIZE ADDITIONAL SECTORS OF INDUSTRY.

15. INDIA OFFERS THE FOREIGN INVESTOR A LARGE AND GROWING MARKET; WELL DEVELOPED INFRASTRUCTURE FACILITIES; EXTENSIVE NATURAL RESOURCES, ESPECIALLY MINERALS; A WELL ESTABLISHED DOMESTIC CAPITAL MARKET; COMPETENT MANAGERS AND PLENTIFUL SKILLED LABOR, AND RELATIVELY LOW WAGES. THE PAST RECORD OF THE PROFITABILITY OF FOREIGN BUSINESS INVESTMENTS IN INDIA INDICATES THAT A COMPANY WILLING TO OPERATE WITHIN THE GOVERNMENT GUIDELINES CAN DO WELL. INVESTMENTS WHICH GAIN RELATIVELY SPEEDY APPROVAL AND ENJOY SMOOTH OPERATIONS IN INDIA TEND TO BE THOSE WHICH OFFER NEEDED TECHNOLOGY IN A PRIORITY AREA, PROMISE EXPORTS, ENLIST A WELL-REGARDED LOCAL PARTNER, AND MAINTAIN A MINORITY FOREIGN EQUITY. THE BALANCE BETWEEN FOREIGN EXCHANGE OUTFLOWS FROM INDIA (OCCASIONED BY REMITTANCE OF DIVIDENDS AND ROYALTY PAYMENTS AND IMPORT OF MACHINERY) AND INFLOWS (EXPORTS AND IMPORTS SUBSTITUTION BENEFITS) SHOULD GENERALLY BE IN INDIA'S FAVOR. TIE-UPS WITH CENTRAL OR STATE GOVERNMENT ENTITIES ARE ESPECIALLY DESIRABLE, AND SEVERAL US FIRMS HAVE ENTERED INTO SUCH VENTURES.

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16. SOME OF THE MOST PROMISING SECTORS FOR INVESTMENT INCLUDE OFFSHORE OIL EXPLORATION AND DEVELOPMENT, COAL GASIFICATION AND LIQUIFICATION, ELECTRONIC COMPONENTS, CHEMICALS, PROCESSING AND BENEFICIATION OF MINERAL ORES, AND INDUSTRIAL INSTRUMENTATION. FOREIGN PARTICIPATION IN OIL EXPLORATION DOES NOT EXTEND TO PRODUCTION SHARING. THE TWO AMERICAN GROUPS WHICH HAVE RECENTLY SIGNED CONTRACTS HERE WILL EXPLORE AT THEIR OWN RISK AND RECEIVE COMPENSATION PLUS AN AGREED RATE OF RETURN ON THEIR INVESTMENT IF COMMERCIAL DEPOSITS ARE LOCATED.SAXBE

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